

Ubuntu Municipality



*menswaardigheid • hoop • erfenis
ubuntu • ithemba • izithethe
humanity • hope • heritage*

Ubuntu Local Municipality
Annual Financial Statements
for the year ended June 30, 2019
The Auditor-General of South Africa

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended June 30, 2019

General Information

Legal form of entity	Local municipality as defined by the Municipal Structures Act (Act no.117 of 1998)
Nature of business and principal activities	Ubuntu Municipality is a local municipality performing the functions as set out in the Constitution (Act no. 105 of 1996)
Mayoral committee	
Mayor	JZ Lolwana
Councillors	PE Jantjies W Schutz CC Jantjies CJ Pieterse KJ Arens JH Vorster
Grading of local authority	Category B as defined by the Municipal Structures Act (Act number 117 of 1998)
Accounting Officer	Mr D Maposa (Acting since 25 May 2018)
Chief Finance Officer (CFO)	Mr RA Jacobs
Accounting Officer	
Registered office	78 Church Street Victoria West 7070
Business address	78 Church Street Victoria West 7070
Bankers	First National Bank
Auditors	The Auditor-General of South Africa
Enabling legislation	Municipal Finance Management Act (Act no. 56 of 2003) Division of Revenue Act The Income Tax Act (Act no. 58 of 1962) The Value-added Tax Act (Act no. 89 of 1991) Municipal Structures Act (Act no. 117 of 1998) Municipal Systems Act (Act no. 32 of 2000) Municipal Planning and Performance Management Regulations Housing Act (Act no. 107 of 1997) Skills Development Levies Act (Act no. 9 of 1999) Employment Equity Act (Act no. 55 of 1998) Unemployment Insurance Act (Act no. 30 of 1966) Basic Conditions of Employment Act (Act no. 75 of 1997) Supply Chain Management Regulations Act, 2005 Disaster Management Act of 2016 Spatial Planning and Land Use Management Act (Act no. 16 of 2013) Property Rates Act 6 of 2004

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COID	Compensation for Occupational Injuries and Diseases
DoRA	Division of Revenue Act
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
IDP	Integrated Development Plan
INEP	Integrated National Electrification Programme
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
MSA	Municipal Systems Act
PAYE	Pay As You Earn
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
NERSA	National Energy Regulator of South Africa
SALGA	South African Local Government Association
SARS	South African Revenue Service

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. For detailed going concern assumptions refer to note 45.

The external auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements have been audited by the municipality's external auditors and their report is presented on page 5.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Corporative Governance determination in accordance with this Act.

The annual financial statements set out on pages 5 to 89, which have been prepared on the going concern basis, were approved by the accounting officer on August 29, 2019 and were signed on its behalf by:

Mr D Maposa
Acting Municipal Manager

Ubuntu Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Accounting Officer's Report

The accounting officer submits his report for the year ended June 30, 2019.

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interests of the local community within the Ubuntu Municipal area and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 22,137,117 (2018: deficit R 18,400,822).

2. Going concern

We draw attention to the fact that at June 30, 2019, the municipality had an accumulated surplus of R 545,806,702 and that the municipality's total assets exceed its total liabilities by R 545,806,702.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Furthermore management has reviewed the municipality's cash flow forecast for the year ended 30 June 2019 and, in the light of this review and the current financial position, management is satisfied that the municipality has, or has access to, adequate resources to continue its operation existing for the foreseeable future.

The municipality still has the ability to levy services, rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocations as published in terms of the Division of Revenue Act (Act 1 of 2019).

For details of management's assumptions with respect to the applicability of the going concern assumption refer to note 45.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

No matters to report.

5. Accounting policies

The annual financial statements are prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any directives and interpretations of such Standards issued by the Accounting Standards Board and in accordance with Section 122(3) of the Municipal Finance Management Act (Act No.56 of 2003).

6. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality	Changes
Mr D Maposa	South African	Acting since 25 May 2018

7. Auditors

The Auditor-General of South Africa will continue in office for the next financial period.

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Annual Financial Statements for the year ended June 30, 2019

Statement of Financial Position as at June 30, 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	3	122,815	10,906
Other receivables from exchange transactions	4	1,950,214	1,093,058
Receivables from non-exchange transactions	5	13,794,605	10,531,956
VAT receivable	6	1,804,641	3,426,777
Receivables from exchange transactions	7	5,274,681	4,403,468
Cash and cash equivalents	8	1,859,695	5,174,429
		24,806,651	24,640,594
Non-Current Assets			
Investment property	9	29,637,896	29,286,459
Property, plant and equipment	10	592,985,683	610,280,694
Intangible assets	11	26,949	32,661
		622,650,528	639,599,814
Total Assets		647,457,179	664,240,408
Liabilities			
Current Liabilities			
Finance lease obligation	12	199,578	455,534
Payables from exchange transactions	13	76,340,698	61,780,611
Consumer deposits	14	191,514	188,550
Employee benefit obligation	15	793,000	431,000
Unspent conditional grants and receipts	16	3,001,758	4,111,532
Provisions	17	3,077,052	4,373,786
		83,603,600	71,341,013
Non-Current Liabilities			
Finance lease obligation	12	337,426	1,705,341
Employee benefit obligation	15	5,673,000	5,718,000
Provisions	17	5,140,591	3,385,372
Payables from exchange transactions		6,895,860	14,146,860
		18,046,877	24,955,573
Total Liabilities		101,650,477	96,296,586
Net Assets		545,806,702	567,943,822
Accumulated surplus		545,806,702	567,943,822

* See Note 38

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Annual Financial Statements for the year ended June 30, 2019

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	23,659,148	17,843,159
Rental of facilities and equipment	19	139,826	220,195
Interest received (trading)		9,053,016	1,945,255
Licences and permits		532,896	106,535
Other income		396,132	843,045
Interest received - investment	20	436,273	402,336
Total revenue from exchange transactions		34,217,291	21,360,525
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	9,260,354	5,043,171
Transfer revenue			
Government grants & subsidies	22	48,904,773	47,873,527
Public contributions and donations	23	1,451,534	3,587,482
Fines, Penalties and Forfeits	24	11,428,962	33,247,908
Total revenue from non-exchange transactions		71,045,623	89,752,088
Total revenue	25	105,262,914	111,112,613
Expenditure			
Employee related costs	26	(34,496,279)	(28,890,973)
Remuneration of councillors	27	(2,766,042)	(2,602,596)
Depreciation and amortisation	28	(24,917,775)	(24,780,295)
Impairment loss / Reversal of impairments	29	(20,030,363)	(32,463,490)
Finance costs	30	(7,543,815)	(6,764,977)
Bulk purchases	31	(18,239,879)	(17,987,978)
Contracted services	32	(4,397,582)	(4,251,380)
General Expenses	33	(16,000,625)	(12,546,978)
Total expenditure		(128,392,360)	(130,288,667)
Operating deficit		(23,129,446)	(19,176,054)
Gain (loss) on disposal of assets and liabilities		852,240	(236,900)
Actuarial gains	15	140,089	1,012,132
		992,329	775,232
Deficit for the year		(22,137,117)	(18,400,822)

* See Note 38

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	584,511,766	584,511,766
Adjustments		
Prior year adjustments	1,832,878	1,832,878
Balance at July 1, 2017 as restated*	586,344,644	586,344,644
Changes in net assets		
Surplus / (deficit) for the year	(18,400,822)	(18,400,822)
Total changes	(18,400,822)	(18,400,822)
Restated* Balance at July 1, 2018	567,943,819	567,943,819
Changes in net assets		
Surplus / (deficit) for the year	(22,137,117)	(22,137,117)
Total changes	(22,137,117)	(22,137,117)
Balance at June 30, 2019	545,806,702	545,806,702
Note(s)		

* See Note 38

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Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		20,501,645	21,673,193
Grants		49,246,534	46,532,946
Interest income		9,489,289	2,347,591
		<u>79,237,468</u>	<u>70,553,730</u>
Payments			
Employee costs		(36,805,232)	(30,970,437)
Suppliers		(22,516,673)	(21,105,104)
Finance costs		(6,750,891)	(4,551,047)
		<u>(66,072,796)</u>	<u>(56,626,588)</u>
Net cash flows from operating activities	34	<u>13,164,672</u>	<u>13,927,142</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(8,406,227)	(11,223,421)
Purchase of other intangible assets	11	(6,099)	-
Net cash flows from investing activities		<u>(8,412,326)</u>	<u>(11,223,421)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		-	(269,204)
Movement in payables from exchange transactions		(7,251,000)	-
Finance lease payments		(816,080)	211,086
Net cash flows from financing activities		<u>(8,067,080)</u>	<u>(58,118)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(3,314,734)</u>	<u>2,645,603</u>
Cash and cash equivalents at the beginning of the year		5,174,429	2,528,826
Cash and cash equivalents at the end of the year	8	<u>1,859,695</u>	<u>5,174,429</u>

* See Note 38

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	29,277,708	39,403	29,317,111	23,659,148	(5,657,963)	48, x1
Rental of facilities and equipment	222,141	(4,480)	217,661	139,826	(77,835)	48, x2
Interest received (trading)	4,943,926	1,156,074	6,100,000	9,053,016	2,953,016	48, x3
Licences and permits	681,429	(433,629)	247,800	532,896	285,096	48, x4
Other income	600,832	407,103	1,007,935	396,132	(611,803)	48, x5
Interest received - investment	359,778	70,222	430,000	436,273	6,273	48, x6
Total revenue from exchange transactions	36,085,814	1,234,693	37,320,507	34,217,291	(3,103,216)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	6,397,830	2,758,175	9,156,005	9,260,354	104,349	48, x7
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Transfer revenue

Government grants & subsidies	37,911,953	9,314,000	47,225,953	48,904,773	1,678,820	48, x8
Public contributions and donations	-	-	-	1,451,534	1,451,534	48, x9
Fines, Penalties and Forfeits	37,364,588	(12,033)	37,352,555	11,428,962	(25,923,593)	48, x10

Total revenue from non-exchange transactions	81,674,371	12,060,142	93,734,513	71,045,623	(22,688,890)	
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Total revenue	117,760,185	13,294,835	131,055,020	105,262,914	(25,792,106)	
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Expenditure

Personnel	(48,271,098)	9,690,248	(38,580,850)	(34,496,279)	4,084,571	48, x11
Remuneration of councillors	(2,157,904)	(1,926,866)	(4,084,770)	(2,766,042)	1,318,728	48, x12
Depreciation and amortisation	(57,820,758)	(214,672)	(58,035,430)	(24,917,775)	33,117,655	48, x13
Impairment loss/ Reversal of impairments	(43,851,057)	11,851,056	(32,000,001)	(20,030,363)	11,969,638	48, x14

Finance costs	(618,722)	(6,181,281)	(6,800,003)	(7,543,815)	(743,812)	48, x15
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Repairs and maintenance	-	-	-	(1,002,833)	(1,002,833)	48, x16
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Bulk purchases	(21,486,892)	(418,734)	(21,905,626)	(18,239,879)	3,665,747	48, x17
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Contracted Services	(8,430,962)	(5,622,896)	(14,053,858)	(4,397,582)	9,656,276	48, x18
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General Expenses	(10,536,416)	1,767,434	(8,768,982)	(14,997,792)	(6,228,810)	48, x19
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Total expenditure	(193,173,809)	8,944,289	(184,229,520)	(128,392,360)	55,837,160	
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Operating deficit	(75,413,624)	22,239,124	(53,174,500)	(23,129,446)	30,045,054	
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Gain on disposal of assets and liabilities	-	-	-	852,240	852,240	48, x20
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Actuarial gains/losses	-	-	-	140,089	140,089	48, x21
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	-	-	-	992,329	992,329	
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Deficit before taxation	(75,413,624)	22,239,124	(53,174,500)	(22,137,117)	31,037,383	
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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(75,413,624)	22,239,124	(53,174,500)	(22,137,117)	31,037,383	

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	26	-	26	122,815	122,789	
Other receivables from exchange transactions	260,907	-	260,907	1,950,214	1,689,307	
Receivables from non-exchange transactions	-	-	-	13,794,605	13,794,605	
VAT receivable	-	-	-	1,804,641	1,804,641	
Consumer debtors	12,599,034	-	12,599,034	5,274,681	(7,324,353)	
Cash and cash equivalents	2,901,828	-	2,901,828	1,859,695	(1,042,133)	
	15,761,795	-	15,761,795	24,806,651	9,044,856	

Non-Current Assets

Investment property	644,127,299	-	644,127,299	29,637,896	(614,489,403)	
Property, plant and equipment	624,867,230	-	624,867,230	592,985,683	(31,881,547)	
Intangible assets	2,278,070	-	2,278,070	26,949	(2,251,121)	
	1,271,272,599	-	1,271,272,599	622,650,528	(648,622,071)	

Total Assets

	1,287,034,394	-	1,287,034,394	647,457,179	(639,577,215)	
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Liabilities

Current Liabilities

Finance lease obligation	-	-	-	199,578	199,578	
Payables from exchange transactions	61,376,313	-	61,376,313	76,340,701	14,964,388	
Consumer deposits	193,699	-	193,699	191,514	(2,185)	
Employee benefit obligation	-	-	-	793,000	793,000	
Unspent conditional grants and receipts	-	-	-	3,001,758	3,001,758	
Provisions	2,964,249	-	2,964,249	3,077,052	112,803	
	64,534,261	-	64,534,261	83,603,603	19,069,342	

Non-Current Liabilities

Finance lease obligation	1,618,517	-	1,618,517	337,426	(1,281,091)	
Employee benefit obligation	-	-	-	5,673,000	5,673,000	
Provisions	7,227,442	-	7,227,442	5,140,591	(2,086,851)	
Payables from exchange transactions	-	-	-	6,895,860	6,895,860	
	8,845,959	-	8,845,959	18,046,877	9,200,918	

Total Liabilities

	73,380,220	-	73,380,220	101,650,480	28,270,260	
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Net Assets

	1,213,654,174	-	1,213,654,174	545,806,699	(667,847,475)	
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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,213,654,174		- 1,213,654,174	545,806,699	(667,847,475)	

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2019											
Financial Performance											
Property rates	6,397,830	2,758,175	9,156,005	-		9,156,005	9,260,354		104,349	101 %	145 %
Service charges	29,277,708	39,403	29,317,111	-		29,317,111	23,659,148		(5,657,963)	81 %	81 %
Investment revenue	359,778	70,222	430,000	-		430,000	436,273		6,273	101 %	121 %
Transfers recognised - operational	35,991,953	5,000,000	40,991,953	-		40,991,953	39,795,000		(1,196,953)	97 %	111 %
Other own revenue	43,812,916	1,113,035	44,925,951	-		44,925,951	22,543,161		(22,382,790)	50 %	51 %
Total revenue (excluding capital transfers and contributions)	115,840,185	8,980,835	124,821,020	-		124,821,020	95,693,936		(29,127,084)	77 %	83 %
Employee costs	(48,271,098)	9,690,248	(38,580,850)	-	-	(38,580,850)	(34,496,279)	-	4,084,571	89 %	71 %
Remuneration of councillors	(2,157,904)	(1,926,866)	(4,084,770)	-	-	(4,084,770)	(2,766,042)	-	1,318,728	68 %	128 %
Debt impairment	(43,851,057)	11,851,056	(32,000,001)			(32,000,001)	-	-	32,000,001	- %	- %
Depreciation and asset impairment	(57,820,758)	(214,672)	(58,035,430)			(58,035,430)	(44,948,138)	-	13,087,292	77 %	78 %
Finance charges	(618,722)	(6,181,281)	(6,800,003)	-	-	(6,800,003)	(7,543,815)	-	(743,812)	111 %	1,219 %
Materials and bulk purchases	(21,506,921)	(438,706)	(21,945,627)	-	-	(21,945,627)	(18,239,879)	-	3,705,748	83 %	85 %
Other expenditure	(18,947,349)	(3,835,490)	(22,782,839)	-	-	(22,782,839)	(20,398,207)	-	2,384,632	90 %	108 %
Total expenditure	(193,173,809)	8,944,289	(184,229,520)	-	-	(184,229,520)	(128,392,360)	-	55,837,160	70 %	66 %
Surplus/(Deficit)	(77,333,624)	17,925,124	(59,408,500)	-		(59,408,500)	(32,698,424)		26,710,076	55 %	42 %

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Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	1,920,000	4,314,000	6,234,000	-		6,234,000	9,109,773		2,875,773	146 %	474 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	1,451,534		1,451,534	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	(75,413,624)	22,239,124	(53,174,500)	-		(53,174,500)	(22,137,117)		31,037,383	42 %	29 %
Surplus/(Deficit) for the year	(75,413,624)	22,239,124	(53,174,500)	-		(53,174,500)	(22,137,117)		31,037,383	42 %	29 %

Capital expenditure and funds sources

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Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures have been rounded off to the nearest Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated R - lower or R - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

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Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives and residual values

The entity's management determines the estimated useful lives, residual values and related depreciation charges for assets as noted in accounting policy 1.5 Property Plant and equipment. These estimates are based on industry norms.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual values, management also makes these changes prospectively.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Property with a currently undetermined use is also classified as investment property.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs is the amount of cash or cash equivalent or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

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Accounting Policies

1.4 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 9).

Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of asset.

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others (other than Investment Property), or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

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Accounting Policies

1.5 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property plant and equipment are accounted for as property plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent measurement:

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Revaluations are made with sufficient regularity, by registered valuers for every class separately, such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus included in the net assets related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus included in the net assets related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Depreciation and impairment:

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Land, except for landfill and quarry sites, is not depreciated as it has an indefinite useful life.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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Accounting Policies

1.5 Property, plant and equipment (continued)

Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Components of asset that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Subsequent to initial recognition, property plant and equipment on the cost model, is carried at cost less accumulated depreciation and any accumulated impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Community facilities	Straight line	5 - 100 years
Sport and recreation facilities	Straight line	5 - 100 years
Electricity Network	Straight line	10 - 60 years
Water supply network	Straight line	10 - 100 years
Roads and stormwater network	Straight line	5 - 100 years
Sanitation network	Straight line	5 - 100 years
Community facilities	Straight line	5 - 100 years
Housing	Straight line	7 - 100 years
Operational buildings	Straight line	5 - 100 years
Computer equipments	Straight line	5 years
Electrical equipment	Straight line	5 years
Furniture and fittings	Straight line	7 years
Leased assets - office equipment	Straight line	5 years
Mechanical equipment	Straight line	5 years
Office machines	Straight line	5 years
Vehicles	Straight line	6 - 10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Derecognition:

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Commitments:

Where the municipality has a contractual commitment in respect of the acquisition of property, plant and equipment, these are disclosed in note 35. The commitments as disclosed are the contractual amount less any payment made in respect of the contract.

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Accounting Policies

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the earlier of the date that asset is classified as held for sale (or included a disposal group that is classified as held for sale) in accordance with the standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is derecognised.

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Accounting Policies

1.7 Intangible assets (continued)

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Servitudes	Straight line	Infinite
Computer software	Straight line	4 years

Derecognition:

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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Accounting Policies

1.8 Financial instruments (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unutilised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

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Accounting Policies

1.8 Financial instruments (continued)

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

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1.8 Financial instruments (continued)

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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1.8 Financial instruments (continued)

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

Cash and cash equivalents

Cash and cash equivalents comprise of cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

These are initially and subsequently recorded at amortised cost. Fair value approximates the carrying amount. However, where the asset is not readily convertible into cash amounts for a period exceeding three months these are treated as investments.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

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1.9 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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1.11 Impairment of cash-generating assets (continued)

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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1.12 Employee benefits (continued)

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

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1.12 Employee benefits (continued)

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

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1.12 Employee benefits (continued)

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

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1.12 Employee benefits (continued)

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes post employment medical aid as a minimum

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end, capped at a maximum of 48 days, and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods, if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they are accrued to employees. The liability at year-end is based on bonus accrued at year-end for each employee.

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1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of a activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

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1.13 Provisions and contingencies (continued)

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

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Accounting Policies

1.13 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.5.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.14 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

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Accounting Policies

1.15 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

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Accounting Policies

1.15 Revenue from exchange transactions (continued)

Pre-paid electricity

Prepaid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August). The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the months of May, June and July. The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

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Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

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Annual Financial Statements for the year ended June 30, 2019

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.20 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised. This consists currently mostly of interest and penalties on late payments made.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Irregular expenditure

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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Accounting Policies

1.22 Irregular expenditure (continued)

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.25 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statement. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2017 to 6/30/2018.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.27 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

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Accounting Policies

1.27 Related parties (continued)

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.29 Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate 15% from 1 April 2018 (2017:14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The Municipality accounts for VAT on a bi-monthly basis.

1.30 Accumulated surplus

The municipality's surplus or deficit for the year is accounted for in the accumulated surplus in the statement of changes in net assets.

The accumulated surplus/deficit represents the net difference between total assets and total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments relating to income and expenditure are debited/credited against accumulated surplus when retrospective adjustments are made.

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2019 or later periods:

GRAP 104 (revised): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is for years beginning on or after April 1, 2019.

The municipality expects to adopt the guideline for the first time in the 2018/2019 annual financial statements.

It is unlikely that the guideline will have a material impact on the municipality's annual financial statements.

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Directive 7 (revised): The Application of Deemed Cost

This Directive was originally issued by the Accounting Standards Board (the Board) in December 2009. Since then, it has been amended by:

- Consequential amendments when the following Standards of GRAP were amended to clarify some of the principles:
 - GRAP 105 Transfer of Functions Between Entities Under Common Control
 - GRAP 107 Mergers
- Consequential amendments arising from GRAP 110 *Living and Non-living Resources* issued in December 2017.
- Consequential amendments arising from the following Standards of GRAP in May 2018:
 - GRAP 34 *Separate Financial Statements*
 - GRAP 35 *Consolidated Financial Statements*
 - GRAP 36 *Investments in Associates and Joint Ventures*
 - GRAP 37 *Joint Arrangements*
 - GRAP 38 *Disclosure of Interests in Other Entities*

The effective date of this Directive coincides with the effective dates of the applicable Standards of GRAP, as determined by the Minister of Finance. If an entity has assets that it previously could not recognise and/or measure in accordance with the Standards of GRAP on their initial adoption on the transfer date or the merger date because information about the acquisition cost of the assets was not available, an entity applies this Directive to those assets. The fair value of those assets is determined at the date of adopting the Standards of GRAP on the transfer date or the merger date in accordance with the Directive's Appendix paragraph A3.

The effective date of this revised directive is for years beginning on or after April 1, 2019.

The municipality expects to adopt the directive for the first time in the 2018/2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 18 (as amended 2016): Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

The effective date of the standard is for years beginning on or after April 1, 2019

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
 - has control or joint control over the reporting entity;
 - has significant influence over the reporting entity;
 - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
 - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
 - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
 - both entities are joint ventures of the same third party;
 - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
 - the entity is controlled or jointly controlled by a person identified in (a); and
 - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after April 1, 2019.

The municipality expects to adopt the standard for the first time in the 2019/2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is for years beginning on or after April 1, 2019.

The municipality expects to adopt the standard for the first time in the 2019/2019 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the interpretation is not yet set by the Minister of Finance.

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after April 1, 2019.

The municipality expects to adopt the interpretation for the first time in the 2019/2019 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

IGRAP 19: Liabilities to Pay Levies

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?
- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

The effective date of the interpretation is not yet set by the Minister of Finance.

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Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the interpretation for the first time when the Minister sets the effective date for the interpretation.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2019 or later periods but are not relevant to its operations:

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, Act No. 108 of 1996 (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised by preparers about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the landfill site and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land in a landfill, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, closure, end-use and monitoring, Other considerations, and Annexures with Terminology, Summary of guidance from other standard setters & References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Guideline: Guideline on the Application of Materiality to Financial Statements

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. This Guideline aims to assist entities in achieving the overall financial reporting objective. This Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting ("the Conceptual Framework") and other relevant Standards of GRAP. This Guideline includes examples and case studies to illustrate how an entity may apply the principles in this Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, assessing whether information is material, applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting & References to pronouncements used in the Guideline.

The effective date of the guideline is not yet set by the Minister of Finance.

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statements.

It furthermore covers Definitions, Preparation of separate financial statements, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after April 1, 2020.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 38: Disclosure of Interests in Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

- the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and
- the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interests in controlled entities, Interests in joint arrangements and associates, Interests in structured entities that are not consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after April 1, 2020.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

Ubuntu Local Municipality

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after April 1, 2020.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue

The amendments to this Interpretation of the Standard of GRAP clarifies that the entity should also consider other factors in assessing the probability of future economic benefits or service potential to the entity. Entities are also uncertain of the extent to which factors, other than the uncertainty about the collectability of revenue, should be considered when determining the probability of the inflow of future economic benefits or service potential on initial recognition of revenue. For example, in providing certain goods or services, or when charging non-exchange revenue, the amount of revenue charged may be reduced or otherwise modified under certain circumstances. These circumstances include, for example, where the entity grants early settlement discounts, rebates or similar reductions based on the satisfaction of certain criteria, or as a result of adjustments to revenue already recognised following the outcome of any review, appeal or objection process.

The consensus is that on initial recognition of revenue, an entity considers the revenue it is entitled to, following its obligation to collect all revenue due to it in terms of legislation or similar means. In addition, an entity considers other factors that will impact the probable inflow of future economic benefits or service potential, based on past experience and current facts and circumstances that exist on initial recognition.

An entity applies judgement based on past experience and current facts and circumstances.

The effective date of the amendment is for years beginning on or after April 1, 2020.

The municipality does not envisage the adoption of the amendment until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Ubuntu Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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3. Inventories

Water	122,815	10,906
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Inventory pledged as security

There are no inventories pledged as security.

4. Other receivables from exchange transactions

Prepaid interest DBSA loan	-	3,997
Sundry receivables	-	642,239
Medical aid contributions recoverable	69,408	103,191
Payroll receivables	1,252,146	339,591
Eskom connection deposit	600,000	-
Cash in transit	28,660	4,040
	1,950,214	1,093,058

Other receivables from exchange transactions pledged as security

None of the other receivables from exchange transactions were pledged as security for any financial liability at year-end.

Credit quality of other receivables from exchange transactions

The credit quality of other receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Other receivables from exchange transactions past due but not impaired

Other receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At June 30, 2019, R 1,950,214 (2018: R 1,093,058) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	1,950,214	1,093,058
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5. Receivables from non-exchange transactions

Traffic fines	10,730,398	8,817,146
Deposits paid	26,353	1,128
Property rates	3,037,854	1,713,682
	13,794,605	10,531,956

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions were pledged as security for any financial liability at year-end. The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation.

Ubuntu Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
5. Receivables from non-exchange transactions (continued)		
Property rates: Ageing		
Current (0 - 30 days)	1,276,347	477,723
31 - 60 days	432,402	406,614
61 - 90 days	399,144	261,885
91 days +	19,109,935	17,272,881
Less: Impairment	(18,179,974)	(16,705,421)
	3,037,854	1,713,682
Property rates by classification: consumers		
Current (0 - 30 days)	505,747	323,465
31 - 60 days	296,689	269,756
61 - 90 days	284,669	206,327
91 days +	11,929,635	11,237,364
Less: Impairment	(12,838,632)	(11,897,858)
	178,108	139,054
Property rates by classification: Industrial / commercial		
Current (0 - 30 days)	232,846	132,744
31 - 60 days	127,032	115,666
61 - 90 days	105,817	54,044
91 days +	6,403,123	5,110,272
Less: Impairment	(5,341,342)	(4,807,563)
	1,527,476	605,163
Property rates by classification: National and Provincial		
Current (0 - 30 days)	537,754	21,513
31 - 60 days	8,680	21,193
61 - 90 days	8,658	1,514
91 days +	777,178	925,265
	1,332,270	969,485
Total		
Current (0 - 30 days)	1,276,347	477,723
31 - 60 days	432,402	406,614
61 - 90 days	399,144	261,885
91 days +	19,109,935	17,272,881
Less: Impairment	(18,179,974)	(16,705,421)
	3,037,854	1,713,682

Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At June 30, 2019, R 13,768,252 (2018: R 10,530,828) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 - 3 months past due (Property Rates)	3,037,854	1,713,682
1 - 3 months past due (Traffic Fines)	10,730,398	8,817,146

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Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
5. Receivables from non-exchange transactions (continued)		
Receivables from non-exchange transactions impaired		
As of 30 June 2019, receivables from non-exchange transactions of R 77,372,246 (2018: R 164,212,340) were impaired and provided for.		
The ageing of these loans is as follows:		
3 to 6 months	18,179,974	16,705,421
Over 6 months	59,192,272	147,506,919
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	(164,212,340)	(137,315,516)
Provision for impairment	(7,559,926)	(26,896,824)
Amounts written off as uncollectible	94,400,020	-
	(77,372,246)	(164,212,340)
6. VAT receivable		
VAT	1,804,641	3,426,777
7. Receivable from exchange transactions		
Gross balances		
Electricity	6,986,217	7,601,222
Water	37,103,339	27,384,143
Sewerage	16,208,225	14,276,597
Refuse	18,466,965	16,271,689
Housing and other sundry	1,426,013	1,421,167
	80,190,759	66,954,818
Less: Allowance for impairment		
Electricity	(4,798,048)	(5,449,070)
Water	(35,021,089)	(26,172,827)
Sewerage	(15,614,018)	(13,648,030)
Refuse	(18,100,246)	(16,004,035)
Housing and other sundry	(1,382,677)	(1,277,388)
	(74,916,078)	(62,551,350)
Net balance		
Electricity	2,188,169	2,152,152
Water	2,082,250	1,211,316
Sewerage	594,207	628,567
Refuse	366,719	267,654
Housing and other sundry	43,336	143,779
	5,274,681	4,403,468

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
7. Receivable from exchange transactions (continued)		
Electricity		
Current (0 -30 days)	660,570	979,973
31 - 60 days	481,761	358,233
61 - 90 days	348,398	315,334
91 - 120 days	265,614	374,665
121 - 365 days	5,229,874	5,573,017
> 365 days	(4,798,048)	(5,449,070)
	2,188,169	2,152,152
Water		
Current (0 -30 days)	1,921,257	682,378
31 - 60 days	955,869	405,261
61 - 90 days	949,225	379,982
91 - 120 days	822,112	446,729
121 - 365 days	32,454,876	25,469,794
> 365 days	(35,021,089)	(26,172,828)
	2,082,250	1,211,316
Sewerage		
Current (0 -30 days)	527,852	269,962
31 - 60 days	525,063	234,271
61 - 90 days	485,436	170,777
91 - 120 days	470,611	231,671
121 - 365 days	14,199,263	13,369,916
> 365 days	(15,614,018)	(13,648,030)
	594,207	628,567
Refuse		
Current (0 -30 days)	554,372	260,123
31 - 60 days	561,626	234,012
61 - 90 days	528,994	176,951
91 - 120 days	511,087	221,447
121 - 365 days	16,310,886	15,379,156
> 365 days	(18,100,246)	(16,004,035)
	366,719	267,654
Housing rental		
Current (0 -30 days)	22,111	20,924
31 - 60 days	18,846	19,709
61 - 90 days	13,985	17,348
91 - 120 days	12,070	18,146
121 - 365 days	1,359,001	1,345,040
> 365 days	(1,382,677)	(1,277,388)
	43,336	143,779

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Notes to the Annual Financial Statements

Figures in Rand	2019	2018
7. Receivable from exchange transactions (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	2,146,064	1,548,019
31 - 60 days	2,161,851	806,129
61 - 90 days	2,031,924	679,047
91 - 120 days	1,831,828	870,361
121 - 365 days	64,882,239	57,667,759
	73,053,906	61,571,315
Less: Allowance for impairment	(73,012,742)	(61,069,587)
	41,164	501,728
Industrial/ commercial		
Current (0 -30 days)	1,218,836	362,876
31 - 60 days	217,514	234,050
61 - 90 days	157,775	199,151
91 - 120 days	152,564	246,487
121 - 365 days	2,605,381	781,916
	4,352,070	1,824,480
Less: Allowance for impairment	(1,903,336)	(1,481,762)
	2,448,734	342,718
National and provincial government		
Current (0 -30 days)	321,262	302,490
31 - 60 days	163,800	211,306
61 - 90 days	136,372	182,194
91 - 120 days	97,103	175,839
121 - 365 days	2,066,246	2,687,195
	2,784,783	3,559,024
Total		
Current (0 -30 days)	3,686,162	2,213,385
31 - 60 days	2,543,165	1,251,485
61 - 90 days	2,326,071	1,060,392
91 - 120 days	2,081,495	1,292,687
121 - 365 days	69,553,866	61,136,869
	80,190,759	66,954,818
Less: Allowance for impairment	(74,916,078)	(62,551,350)
	5,274,681	4,403,468
Less: Allowance for impairment		
> 365 days	(74,916,078)	(62,551,350)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(62,551,650)	(56,672,069)
Contributions to allowance	(12,364,428)	(5,879,281)
	(74,916,078)	(62,551,350)
Consumer debtors pledged as security		
None of the receivables from exchange transactions were pledged as security for any financial liability at year-end..		

Ubuntu Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand	2019	2018
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7. Receivable from exchange transactions (continued)

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At June 30, 2019, R 5,274,681 (2018: R 4,403,468) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	5,274,681	4,403,468
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Consumer debtors impaired

As of June 30, 2019, receivables from exchange transaction R 74,916,078 (2018: R 62,551,350) were impaired and provided for.

The ageing of these loans is as follows:

3 to 6 months	74,916,078	62,551,350
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8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	449	449
Bank balances	272,291	292,958
Short-term deposits	1,586,955	4,881,022
	1,859,695	5,174,429

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

Credit rating

F3	1,777,899	5,057,726
F1+	81,347	116,254
	1,859,246	5,173,980

Cash and cash equivalents pledged as collateral

Terms and conditions

Ubuntu Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand

2019

2018

8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2019	June 30, 2018	June 30, 2017
First National Bank - Current account (Acc no: 54062338032)	190,944	142,922	231,761	190,944	142,922	231,761
Standard Bank - Current account (Acc no: 187389179)	78,546	116,254	406,457	78,546	116,254	406,457
Standard Bank - Current account (Acc no: 083192662)	2,801	33,782	423,562	2,801	33,782	423,562
First National Bank - Money market (MSIG)(Acc no: 62089843744)	217,393	273	6,013	217,393	273	6,013
First National Bank - Call account (Acc no: 62247301708)	845	183,323	1,207	845	183,323	1,207
First National Bank - Call account (Acc no: 62046110920)	5	110,414	705	5	110,414	705
First National Bank - Call account (FMG) (Acc no: 62056987088)	-	-	9,218	-	-	9,218
First National Bank - Call account (Acc no: 62050017021)	774	4	11,672	774	4	11,672
First National Bank - Fixed deposit account (Acc no: 71267618613)	131,496	123,009	114,267	131,496	123,009	114,267
First National Bank - Call account (MIG) (Acc no: 62209229831)	625,341	1,250,038	1,318,824	625,341	1,250,038	1,318,824
First National Bank - Call account (Acc no: 62242043892)	5,505	1	1,787	5,505	1	1,787
First National Bank - Call account (62086477760)	63	-	2,905	63	-	2,905
First National Bank - Call account (WSIG)(Acc no: 62735797667)	4,050	3,213,960	-	4,050	3,213,960	-
First National Bank - Call account (Acc no: 62735798988)	601,175	-	-	601,175	-	-
First National Bank - Call account (Acc no: 62735796924)	308	-	-	308	-	-
Total	1,859,246	5,173,980	2,528,378	1,859,246	5,173,980	2,528,378

9. Investment property

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property (land)	29,637,896	-	29,637,896	29,286,459	-	29,286,459

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9. Investment property (continued)

Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property (land)	29,286,459	351,437	29,637,896

Reconciliation of investment property - 2018

	Opening balance	Disposals	Fair value adjustments	Total
Investment property (land)	29,322,112	(217,450)	181,797	29,286,459

Pledged as security

There are no investment properties pledged as security

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Deemed cost

Deemed cost was determined using fair value.

10. Property, plant and equipment

	2019			2018		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	13,458,320	-	13,458,320	13,458,320	-	13,458,320
Buildings	56,332,333	(42,831,316)	13,501,017	56,444,650	(41,790,264)	14,654,386
Infrastructure assets	860,640,027	(432,193,142)	428,446,885	852,652,329	(413,767,293)	438,885,036
Community assets	247,402,411	(112,328,413)	135,073,998	247,402,411	(107,817,308)	139,585,103
Other property, plant and equipment	7,956,191	(5,908,807)	2,047,384	8,447,895	(6,048,527)	2,399,368
Finance leased assets	1,107,524	(649,445)	458,079	2,043,693	(745,212)	1,298,481
Total	1,186,896,806	(593,911,123)	592,985,683	1,180,449,298	(570,168,604)	610,280,694

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	13,458,320	-	-	-	-	-	13,458,320
Buildings	14,654,386	-	(27,515)	34,239	(1,160,093)	-	13,501,017
Infrastructure assets	438,885,036	8,043,374	(6,856)	(34,239)	(18,431,301)	(9,129)	428,446,885
Community assets	139,585,103	-	-	-	(4,511,105)	-	135,073,998
Other property, plant and equipment	2,399,368	362,853	(120,990)	-	(497,268)	(96,579)	2,047,384
Finance leased assets	1,298,481	-	(533,382)	-	(307,020)	-	458,079
	610,280,694	8,406,227	(688,743)	-	(24,906,787)	(105,708)	592,985,683

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	13,458,320	-	-	-	-	-	-	13,458,320
Buildings	15,425,361	-	(7,081)	-	(1,144,532)	-	380,638	14,654,386
Infrastructure assets	445,757,280	11,201,877	(123,384)	91,877	(18,042,614)	-	-	438,885,036
Community assets	144,228,705	-	(29,238)	(91,877)	(4,522,487)	-	-	139,585,103
Other property, plant and equipment	3,181,157	21,544	(39,880)	-	(695,432)	(68,021)	-	2,399,368
Finance leased assets	1,659,241	-	-	-	(360,760)	-	-	1,298,481
	623,710,064	11,223,421	(199,583)	-	(24,765,825)	(68,021)	380,638	610,280,694

Pledged as security

No property, plant and equipment has been pledged as security for any financial liability at year-end.

Assets subject to finance lease (Net carrying amount)

Office equipment	458,079	1,298,481
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10. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Infrastructure	2,956,521	2,698,204
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Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Total
Opening balance	2,698,204	2,698,204
Additions/capital expenditure	8,043,374	8,043,374
Transferred to completed items	(7,785,057)	(7,785,057)
	2,956,521	2,956,521

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	4,877,741	4,877,741
Additions/capital expenditure	11,201,877	11,201,877
Transferred to completed items	(13,381,414)	(13,381,414)
	2,698,204	2,698,204

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Office equipment	80,762	114,350
Motor vehicles	240,202	167,360
Infrastructure	681,869	1,363,332
	1,002,833	1,645,042

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Deemed cost

Deemed cost was determined using the depreciated replacement cost.

11. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and licenses	92,178	(65,229)	26,949	97,249	(64,588)	32,661

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11. Intangible assets (continued)

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software and licenses	32,661	6,099	(821)	(10,990)	26,949

Reconciliation of intangible assets - 2018

	Opening balance	Disposals	Amortisation	Total
Computer software and licenses	48,217	(1,087)	(14,469)	32,661

Pledged as security

There are no intangible assets pledged as security.

Deemed cost

Deemed cost was determined using the depreciated replacement cost.

12. Finance lease obligation

Minimum lease payments due

- within one year	265,200	775,080
- in second to fifth year inclusive	375,700	2,021,856
	640,900	2,796,936
less: future finance charges	(103,896)	(636,061)
Present value of minimum lease payments	537,004	2,160,875

Present value of minimum lease payments due

- within one year	(199,578)	(455,534)
- in second to fifth year inclusive	(337,426)	(1,705,341)
	(537,004)	(2,160,875)
Non-current liabilities	(337,426)	(1,705,341)
Current liabilities	(199,578)	(455,534)
	(537,004)	(2,160,875)

Refer to appendix "A" for descriptions, maturity dates and effective interest of structured loans and finance.

Leases are secured by property, plant and equipment - Note 5.

The average lease term is 5 years and the average effective borrowing rate was 15% (2018: 15%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

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13. Payables from exchange transactions

Trade payables	63,710,882	47,300,303
Payments received in advance (debtors with credit balances)	2,064,838	1,593,040
Uncleared deposits	3,885,221	6,763,501
Deposits received	-	685
Payroll creditors	5,954,295	5,382,040
Deferred revenue	122,384	49,751
Other payables	2,898	2,898
Retention creditor	600,180	688,393
	76,340,698	61,780,611

14. Consumer deposits

Electricity	112,578	111,891
Water	78,936	76,659
	191,514	188,550

15. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

The amounts recognised in the statement of financial position are as follows:

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(4,519,000)	(4,642,000)
Present value of the defined benefit obligation-partly or wholly funded	(1,947,000)	(1,507,000)
	(6,466,000)	(6,149,000)
Non-current liabilities	(5,673,000)	(5,718,000)
Current liabilities	(793,000)	(431,000)
	(6,466,000)	(6,149,000)

Post retirement benefits

Post Retirement Medical Aid Benefit

Balance 1 July	(4,642,000)	(5,295,000)
Contribution for the year	(77,000)	(103,000)
Interest cost	(448,000)	(523,000)
Expenditure for the year	350,902	347,903
Actuarial Gain	297,098	931,097
Total post retirement benefit - 30 June	(4,519,000)	(4,642,000)
Less: Transfer to current portion	355,000	349,000
	(4,164,000)	(4,293,000)

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

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15. Employee benefit obligations (continued)

Members

In-service members	8	10
Continuation members (e.g. retirees, widows, orphans)	8	9
	16	19

The liability in respect of past service has been estimated to be as follows:

Liability

In-service members	(1,066,902)	(906,000)
Continuation members (e.g. retirees, widows, orphans)	(3,803,000)	(3,736,000)
	(4,869,902)	(4,642,000)

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- LA Health
- Keyhealth
- Bonitas
- Hosmed
- Fedhealth
- Samwumed

Key actuarial assumptions used:

Heading

Discount rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	Difference between nominal and yield curves
Health Care Cost Inflation Rate	CPI+1%	CPI+1%
Net Effective Discount Rate	Yield curve based	Yield curve based

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve." We used the nominal and real zero curves as at 28 June 2019 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

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15. Employee benefit obligations (continued)

The average retirement age for all active employees was assumed to be 60 years. This assumption implicitly allows for illhealth and early retirements.

Normal retirement age

It has been assumed that in-service members will retire at age 65, which then implicitly allows for expected rates of early and ill-health retirement.

Mortality rates

Spouses and Dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Sensitivity Analysis on the Accrued Liability

Assumption	Change	Change
Health care inflation	+1%	486,000
Health care inflation	-1%	(413,000)
Mortality rate	+20%	(362,000)
Mortality rate	-20%	458,000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2019

Assumption	Change	Current service	Interest Cost
Health care inflation	+1%	85,000	484,000
Health care inflation	-1%	54,000	393,000
Mortality rate	+20%	62,000	399,000
Mortality rate	--20%	74,000	481,000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2019

Long service award

Long service award

Balance 1 July	(1,507,000)	(1,343,000)
Contribution for the year	(164,000)	(154,000)
Interest cost	(151,000)	(141,000)
Expenditure for the year	32,009	49,964
Actuarial gain / (loss)	(157,009)	81,036
Subtotal	(1,947,000)	(1,507,000)
Less: Transfer to current portion	438,000	133,000
Balance 30 June	(1,509,000)	(1,374,000)

The Long Service Award is a defined benefit plan, of which the members are made up as follows:

Total eligible

As at yearend, the following number of employees were eligible for long service bonuses	166	123
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Key actuarial assumptions used:

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Figures in Rand	2019	2018
15. Employee benefit obligations (continued)		
Discount rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference	Difference
	between	between
	nominal and	nominal and
	real yield curve	real yield curve
General Salary Inflation	CPI+1%	CPI+1%
Net Effective Discount rate applied to salary-related Long Service Bonuses	Yield Curve	Yield Curve
	Based	Based

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: "The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve." We use the nominal and real zero curves as at 29 June 2019 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Normal Salary Inflation Rate:

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2019 of 7.36%. The next salary increase was assumed to take place on 01 July 2020.

Average Retirement Age:

The average retirement age for all active employees was assumed to be 60 years. This assumption implicitly allows for illhealth and early retirements.

Normal Retirement Age:

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates:

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Sensitivity Analysis on the unfunded accrued liability:

Assumption	Change	Liability
General salary inflation	+1%	122,000
General salary inflation	-1%	(111,000)
Withdrawal rate	+20%	(112,000)
Withdrawal rate	-20%	125,000
		24,000

Sensitivity Analysis on Current-service and Interest Costs for year ending 30/06/2019

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15. Employee benefit obligations (continued)

Assumption	Change	Current service cost	Interest cost
Health care inflation	+1%	255,000	214,000
Health care inflation	-1%	220,000	189,000
Withdrawal rate	+20%	217,000	189,000
Withdrawal rate	-20%	259,000	214,000
		951,000	806,000

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	-	262,410
Library Grant	1,929,450	1,929,450
Project - 36 Erfs Loxton	305,093	305,093
Intergrated National Electrification Programme Grant	1,248	1,248
Project - Cemetery	88,739	88,739
COGSTHA Incentive Grant	460,835	460,835
Finance Management Grant	(1)	-
Project - Housing	115,555	115,555
Project - EIA Solid Waste Victoria West	99,012	99,012
Project - River Richmond	1,827	1,827
Water Services Infrastructure Grant	-	847,363
	(3,001,758)	(4,111,532)

See Appendix "F" for a reconciliation of grants from other spheres of government. The unspent grants are cash-backed by term deposits. The municipality complied with the conditions of attached to all grants and received to the extent of the revenue recognised. No unspent conditional grants from previous financial years were withheld during the 2019 financial year.

Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

See note 22 for reconciliation of grants from National/Provincial Government.

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17. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	4,730,240	792,924	(382,573)	5,140,591
Accrued leave	2,402,936	34,944	-	2,437,880
Accrued bonus	625,982	13,190	-	639,172
	7,759,158	841,058	(382,573)	8,217,643

Reconciliation of provisions - 2018

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	4,135,691	260,444	334,105	4,730,240
Accrued leave	2,230,529	172,407	-	2,402,936
Accrued bonus	507,530	118,452	-	625,982
	6,873,750	551,303	334,105	7,759,158

Non-current liabilities	5,140,591	3,385,372
Current liabilities	3,077,052	4,373,786
	8,217,643	7,759,158

Provision for environmental rehabilitation:

The municipality has an obligation to rehabilitate landfill sites at the end of the expected useful life of the asset. The estimated total rehabilitation cost at the current inflation rate and estimated date of decommission of the sites have been determined at year end.

Provision for accrued leave pay:

The municipality has an obligation to compensate employees for absences (paid annual leave) within twelve months after the end of the reporting period in which the employees render the related employee service.

Provision for accrued bonus pay:

The municipality has an obligation to compensate employees for incentives in the form of bonuses within twelve months after the end of the reporting period in which the employees render the related employee service.

18. Service charges

Sale of electricity	13,179,377	11,888,283
Sale of water	9,515,007	2,587,590
Sewerage and sanitation charges	3,771,540	2,590,222
Refuse removal	3,746,471	3,678,969
Less: Departmental charges	(1,044,824)	(882,068)
Less: Indigents subsidies	(5,508,423)	(2,019,837)
	23,659,148	17,843,159

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19. Rental of facilities and equipment		
Premises	181,789	178,144
Venue hire	18,792	32,486
Other	29,330	9,485
	229,911	220,115

Included in the above rentals are operating lease rentals at straight-lined amounts of R - (2018: R -) as well as contingent rentals of R - (2018: R -).

20. Investment revenue

Interest revenue

Interest on call accounts	436,273	402,336
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21. Property rates

Rates received

Residential	9,544,955	5,392,008
Less: Income forgone	(284,601)	(348,837)
	9,260,354	5,043,171

Valuations

Residential	233,450,600	233,450,600
Commercial	72,798,900	72,798,900
State	54,167,100	54,167,100
Municipal	14,791,700	14,791,700
Farms	2,782,118,650	2,782,118,650
Public service infrastructure	12,475,400	12,475,400
Public benefit organisations	4,467,600	4,467,600
Vacant land	30,301,900	30,301,900
	3,204,571,850	3,204,571,850

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate per valuation category as specified in the annual municipal published tariff list is applied to property valuations to determine assessment rates. Rebates on the rateable value of R 15 000 (2018: R 15 000) are granted to residential and state property owners.

Rates are levied on an annual basis. Interest at prime plus 1% per annum is levied on rates outstanding two months after due date.

The new general valuation will be implemented on 01 July 2019.

22. Government grants and subsidies

Operating grants

Equitable share	31,165,000	28,192,000
Finance Management Grant	1,970,000	1,900,000
Library Grant	660,000	860,000
Expanded Public Works Programme Grant	1,000,000	1,000,000
COGTA incentive grant	5,000,000	-
Northern Cape Provincial Treasury Grant	-	3,092,464

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22. Government grants and subsidies (continued)

	39,795,000	35,044,464
Capital grants		
Municipal Infrastructure Grant	262,410	9,676,426
INEP	4,000,000	-
Water System Infrastructure Grant	4,847,363	3,152,637
	9,109,773	12,829,063
	48,904,773	47,873,527

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	17,739,773	19,681,527
Unconditional grants received	31,165,000	28,192,000
	48,904,773	47,873,527

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. The allocated equitable share for the year was R31 165 000 (2018: R 28 192 000) however, an amount of R0 (2018: R 6 162 000) was withheld by the National Treasury and only the R31 165 000 (2018: R 22 030 000) was disbursed to the municipality.

Municipal Infrastructure Grant - MIG

Balance unspent at beginning of year	262,410	5,967,412
Current-year receipts	-	10,063,000
Conditions met - transferred to revenue	(262,410)	(9,676,426)
Transferred to Equitable share withheld	-	(6,091,576)
	-	262,410

Conditions still to be met - remain liabilities (see note 16).

Library grant

Balance unspent at beginning of year	1,929,450	1,929,450
Current-year receipts	660,000	860,000
Conditions met - transferred to revenue	(660,000)	(860,000)
	1,929,450	1,929,450

Conditions still to be met - remain liabilities (see note 16).

Municipal Systems Improvement Grant - MSIG

Balance unspent at beginning of year	-	3,768
Other	-	(3,768)
	-	-

Conditions still to be met - remain liabilities (see note 16).

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22. Government grants and subsidies (continued)		
Project - 36 Erfs Loxton		
Balance unspent at beginning of year	305,093	305,093
Conditions still to be met - remain liabilities (see note 16).		
Expanded Public Works Programme - EPWP		
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(1,000,000)
	-	-
Integrated National Electrification Programme - INEP		
Balance unspent at beginning of year	1,248	1,248
Current-year receipts	4,000,000	-
Conditions met - transferred to revenue	(4,000,000)	-
	1,248	1,248
Conditions still to be met - remain liabilities (see note 16).		
Project - Cemetery		
Balance unspent at beginning of year	88,739	88,739
Conditions still to be met - remain liabilities (see note 16).		
COGSTHA Incentive Grant		
Balance unspent at beginning of year	460,835	460,835
Current-year receipts	5,000,000	-
Conditions met - transferred to revenue	(5,000,000)	-
	460,835	460,835
Conditions still to be met - remain liabilities (see note 16).		
Financial Management Grant - FMG		
Balance unspent at beginning of year	-	66,655
Current-year receipts	1,969,999	1,900,000
Conditions met - transferred to revenue	(1,970,000)	(1,900,000)
Transferred to Equitable share withheld	-	(66,655)
	(1)	-
Conditions still to be met - remain liabilities (see note 16).		
Project Housing		
Balance unspent at beginning of year	115,555	115,555
Conditions still to be met - remain liabilities (see note 16).		

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Figures in Rand	2019	2018
22. Government grants and subsidies (continued)		
Project Solid Waste		
Balance unspent at beginning of year	99,012	99,012
Conditions still to be met - remain liabilities (see note 16).		
Project River Richmond		
Balance unspent at beginning of year	1,827	1,827
Conditions still to be met - remain liabilities (see note 16).		
Water Service Infrastructure Grant		
Balance unspent at beginning of year	847,363	-
Current-year receipts	4,000,000	4,000,000
Conditions met - transferred to revenue	(4,847,363)	(3,152,637)
	-	847,363
Conditions still to be met - remain liabilities (see note 16).		
Northern Cape Provincial Treasury Grant		
Current-year receipts	-	3,092,464
Conditions met - transferred to revenue	-	(3,092,464)
	-	-
Conditions still to be met - remain liabilities (see note 16).		
23. Public contributions and donations		
Public contributions	-	7,500
Grants in aid - Northern Cape Provincial Treasury	1,451,534	3,579,982
	1,451,534	3,587,482
Conditions still to be met - remain liabilities (see note 16)		
24. Fines, Penalties and Forfeits		
Library fines	594	1,058
Provincial traffic fines	-	3,150
Speed fines	11,428,368	33,243,700
	11,428,962	33,247,908

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25. Revenue

Service charges	23,659,148	17,843,159
Rental of facilities and equipment	139,826	220,195
Interest received (trading)	9,053,016	1,945,255
Licences and permits	532,896	106,535
Sundry income	396,132	843,045
Interest received - investment	436,273	402,336
Property rates	9,260,354	5,043,171
Government grants & subsidies	48,904,773	47,873,527
Public contributions and donations	1,451,534	3,587,482
Fines, Penalties and Forfeits	11,428,962	33,247,908
	105,262,914	111,112,613

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	23,659,148	17,843,159
Rental of facilities and equipment	139,826	220,195
Interest received (trading)	9,053,016	1,945,255
Licences and permits	532,896	106,535
Other income	396,132	843,045
Interest received - investment	436,273	402,336
	34,217,291	21,360,525

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	9,260,354	5,043,171
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Transfer revenue

Government grants & subsidies	48,904,773	47,873,527
Public contributions and donations	1,451,534	3,587,482
Fines, Penalties and Forfeits	11,428,962	33,247,908
	71,045,623	89,752,088

26. Employee related costs

Basic	25,661,324	20,752,434
Medical aid - company contributions	221,508	254,240
UIF	228,166	197,977
SDL	243,951	192,741
Other payroll levies	17,140	17,533
Leave pay provision charge	100,307	337,938
Post retirement benefit	525,000	626,000
Pension fund contributions	4,115,950	3,241,660
Overtime payments	1,111,760	792,538
Long-service awards	151,000	154,000
13th Cheques	1,351,415	1,406,385
Car allowance	197,173	368,107
Housing benefits and allowances	363,305	378,569
Telephone allowance	6,100	11,030
Standby allowance	202,180	159,821
	34,496,279	28,890,973

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26. Employee related costs (continued)

Remuneration of the Municipal Manager - Mr T Makhoba (4 January 2017 - 27 February 2018))

Annual Remuneration	-	611,021
Car Allowance	-	125,149
Contributions to UIF, Medical and Pension Funds	9,039	111,242
Other	-	73,617
Settlement award	1,355,809	-
	1,364,848	921,029

Mr Makhoba was terminated by way of a Council Resolution on the 27th of February 2018. A settlement agreement was reached and made an order of the Court on the 8th of February 2019.

Remuneration of the Acting Municipal Manager - Mr SW Madyo (22 January 2018 to 30 April 2018)

Annual Remuneration	-	54,349
Contributions to UIF, Medical and Pension Funds	-	471
	-	54,820

Remuneration of the Acting Municipal Manager - Mr D Maposa (25 May 2018)

Annual Remuneration	-	28,530
Acting Allowance	481,610	-
Remote Allowance	30,963	-
Contributions to UIF, Medical and Pension Funds	5,283	157
	517,856	28,687

Remuneration of the Chief Financial Officer - Mr RA Jacobs

Annual Remuneration	644,209	607,666
Car Allowance	60,000	60,000
Remote Allowance	79,756	-
Contributions to UIF, Medical and Pension Funds	115,293	102,178
Other	9,408	76,984
	908,666	846,828

Remuneration of the Deputy Director of Corporate Services - Mr XG Malgas (resigned 31 October 2018)

Annual Remuneration	-	199,403
Car Allowance	-	61,435
Contributions to UIF, Medical and Pension Funds	-	43,009
Other	-	1,930
	-	305,777

Remuneration of the Acting Director of Ccorporate Services - NM Mkontwana (1 July 2018 - 30 November 2018)

Annual Remuneration	185,414	-
Acting Allowance	46,431	-
Travel Allowances	23,923	-
Contributions to UIF, Medical and Pension Funds	40,938	-
	296,706	-

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26. Employee related costs (continued)

Remuneration of the Director of Technical Services - ZV Seloane (1 December 2018)

Annual Remuneration	370,860	-
Car Allowance	35,000	-
Remote Allowance	47,333	-
Contributions to UIF, Medical and Pension Funds	63,346	-
Other	4,150	-
	520,689	-

The employment services of the director of technical services were terminated in April 2016.

27. Remuneration of councillors

Councillors	2,766,042	2,602,596
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Councillors' remuneration consist of the following:

Remuneration of the Mayor - PE Jantjies (1 July 2017 - 31 Aug 2017)

Mayoral allowance	-	77,148
Transport allowance	-	29,574
Telephone allowance	-	4,078
Contributions to pension, medical and SDL	-	19,435
	-	130,235

Remuneration of the Mayor - AL Kweleta (1 September 2017 - 30 June 2018)

Mayoral allowance	69,468	386,871
Transport allowance	25,543	150,825
Telephone allowance	6,087	27,034
Contributions to pension, medical and SDL	12,147	77,832
	113,245	642,562

Remuneration of the Mayor - JZ Lolwana (1 October 2018)

Mayoral allowance	449,507	-
Transport allowance	142,219	-
Telephone allowance	33,300	-
Contributions to pension, medical and SDL	5,966	-
	630,992	-

Remuneration of other councillors

Councillor allowance	1,183,415	1,058,312
Transport allowance	423,416	394,547
Telephone allowance	266,400	186,672
Contributions to pension, medical and SDL	148,574	190,268
	2,021,805	1,829,799

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28. Depreciation and amortisation		
Property, plant and equipment	24,906,785	24,765,826
Intangible assets	10,990	14,469
	24,917,775	24,780,295
29. Impairment loss / Reversal of impairments		
Impairments		
Property, plant and equipment	105,709	(312,616)
Receivables from exchange and non-exchange transactions	19,924,654	32,776,106
	20,030,363	32,463,490
30. Finance costs		
Non-current borrowings	-	14,542
Trade and other payables	6,495,529	5,924,554
Finance leases	91,361	350,749
Bank	-	26
Other interest incurred	956,925	475,106
	7,543,815	6,764,977
31. Bulk purchases		
Electricity	17,156,684	16,478,359
Water	1,083,195	1,509,619
	18,239,879	17,987,978
32. Contracted services		
Presented previously		
Specialist Services	767,285	1,003,507
Other Contractors	3,630,297	3,247,873

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33. General expenses		
Advertising	90,628	61,663
Auditors remuneration	1,845,318	3,425,783
Bank charges	398,608	313,254
Consulting and professional fees	2,544,032	3,318,342
Entertainment	79,994	-
Hire	102,130	-
Insurance	496,266	394,285
Motor vehicle expenses	478,044	-
Fuel and oil	677,467	1,006,466
Printing and stationery	152,196	209,434
Protective clothing	-	39,142
Inventory, spares and materials consumed	1,002,833	1,645,042
Research and development costs	144,309	189,910
Royalties and license fees	43,450	10,168
Security (Guarding of municipal property)	-	3,381
Subscriptions and membership fees	524,826	512,714
Telephone and fax	323,684	422,137
Training	232,453	-
Travel - local	905,055	326,227
Wages job creation	2,707,245	-
Materials job creation	1,832,265	-
Audit committee remuneration	524,375	-
Other expenses	657,800	438,322
Rental paid	54,989	193,500
Paraffin subsidy	182,658	37,208
	16,000,625	12,546,978
34. Net cash flows from operating activities		
Deficit	(22,137,117)	(18,400,822)
Adjustments for:		
Depreciation and amortisation	24,917,775	24,780,295
(Loss) gain on sale of assets and liabilities	(852,240)	236,320
Impairment deficit	20,030,363	32,463,490
Movements in retirement benefit assets and liabilities	317,000	(489,000)
Movements in provisions	841,058	885,408
Changes in working capital:		
Inventories	(111,909)	-
Other receivables from exchange transactions	(857,153)	(851,343)
Consumer debtors	(20,795,868)	(32,543,189)
Other receivables from non-exchange transactions	(3,262,649)	(2,235,707)
Payables from exchange transactions	14,560,086	17,648,832
VAT	1,622,136	(2,643,271)
Unspent conditional grants and receipts	(1,109,774)	(4,928,062)
Consumer deposits	2,964	4,191
	13,164,672	13,927,142

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35. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	5,860,497	3,830,944
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Total capital commitments

Already contracted for but not provided for	5,860,497	3,830,944
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This committed expenditure relates to property, plant and equipment and will be financed by government grants.

36. Contingencies

2019:

The municipality does not have a permit or licence for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act.

2018:

A High Court application was launched by Mr T Makhoba requesting a review of Council's decision to set aside his appointment, the matter is pending whilst a date for the pre-trial conference is being set. Council's legal representatives have not estimated a potential liability in this matter.

A claim was lodged against the municipality by Mr MF Fillis for unlawful dismissal, the municipality could be liable for an amount to R 150 000.

The municipality does not have a permit or licence for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act.

37. Related parties

Relationships

Controlled entities

Joint ventures

Members of key management

Refer to note 27

Refer to note 26

Acting Municipal Manager

Chief Financial Officer

Acting Director Corporate Services

Director Technical Services

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38. Prior period errors

The municipality corrected the following prior period errors retrospectively and restated comparative amounts in terms of GRAP 3 - Accounting policies, Changes in Estimates and Errors.

The correction of the error(s) results in adjustments as follows:

38.1. Prior period error - Consumer deposits misstated:

During the period under review it was noted that the consumer deposit as at 30 June 2017. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Decrease in consumer deposits	9,340
Increase in opening accumulated surplus / (deficit)	(9,340)
	<u>-</u>

38.2. Prior period error - Misstatement retention creditors and work-in-progress:

During the period under review it was noted that retention creditors and work-in-progress additions were misstated at 30 June 2018. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Decrease in retention creditors	49,702
Decrease in VAT payable	(6,483)
Decrease in work-in-progress	(43,219)
	<u>-</u>

38.3. Prior period error - Intangible assets (computer software) misstated in the FAR:

During the period under review it was noted that the intangible assets register was misstated at 30 June 2017. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Increase in intangible assets	<u>63</u>
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Statement of financial performance

Decrease in loss on sale of assets	<u>(63)</u>
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38.4. Prior period error - Misstatement of payables from exchange transactions (salary control):

During the period under review it was noted that the salary control account was misstated at 30 June 2017. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

Statement of financial position

Decrease in payables from exchange transactions	11,762
Increase in opening accumulated surplus / (deficit)	(11,762)
	<u>-</u>

38.5. Prior period error - Misstatement of other receivables from non-exchange transactions:

During the period under review it was noted that the balance on a petrol card in advance was incorrect at 30 June 2018. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:

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38. Prior period errors (continued)		
Statement of financial position		
Increase in other receivables from non-exchange transactions		61
Statement of financial performance		
Decrease in general expenses		(61)
38.6. Prior period error - Other assets misstated in the FAR:		
During the period under review it was noted that the movable asset register was misstated at 30 June 2017. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in property, plant and equipment	496,156	
Increase in opening accumulated surplus / (deficit)	(601,836)	
	(105,680)	
Statement of financial performance		
Decrease in loss on disposal of assets	(16,195)	
Increase in depreciation and amortisation	121,875	
	105,680	
38.7. Prior period error - Leased assets misstated in the FAR:		
During the period under review it was noted that the leased asset register was misstated at 30 June 2018. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Decrease in property, plant and equipment	(177,408)	
Decrease in opening accumulated surplus / (deficit)	230,363	
	52,955	
Statement of financial performance		
Decrease in depreciation and amortisation	(52,955)	
38.8. Prior period error - Traffic fine revenue misstated:		
During the period under review it was noted that the traffic fine revenue and traffic fine receivable was misstated at 30 June 2018 and 30 June 2017. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in receivables from non-exchange transactions	456,664	
Increase in opening accumulated surplus / (deficit)	(31,489)	
Decrease in payables from exchange transactions	298,225	
	723,400	
Statement of financial performance		
Increase in traffic fine revenue	(723,400)	
38.9. Prior period error - Hall deposits misstated:		

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38. Prior period errors (continued)		
During the period under review it was noted that the hall deposit and hall rental income was misstated at 30 June 2017 and 30 June 2018. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Decrease in payables from exchange transactions	14,530	
Increase in opening accumulated surplus / (deficit)	(1,712)	
	12,818	
Statement of financial performance		
Increase in hall rentals	(12,818)	
38.10. Prior period error - Payroll control account misstated:		
During the period under review it was noted that the payroll control account was misstated at 30 June 2018 and 30 June 2017. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position		
Increase in payables from exchange transactions	(63,336)	
Decrease in opening accumulated surplus/(deficit)	(7,735)	
	(71,071)	
Statement of financial performance		
Increase in finance charges	71,071	
38.11. Prior period error - ESKOM arrangement incorrectly account for		
During the period under review it was noted that the Eskom repayment arrangement was incorrectly account for at 30 June 2018. The comparative statements for 2017/2018 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Statement of financial position:		
Decrease in payables from exchange transactions (current portion)	21,258,860	
Increase in payables from exchange transactions (long term)	(14,146,860)	
	7,112,000	
Statement of financial performance		
Decrease in bulk purchases	(7,112,000)	
38.12. Prior period error - Correction of Vat control due to assessment changes:		
During the period under review it was noted that the Vat control account was misstated at 30 June 2017 and 30 June 2018. The comparative statements for 2017/18 financial year have been restated. The effect of the correction of the error(s) is summarised below:		
Decrease in Vat Payable	1,339,367	
Increase in opening accumulated surplus / (deficit)	(1,339,367)	
	-	

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39. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2019

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Consumer deposits	191,514	-	-	-
Employee benefit obligation	793,000	-	-	-
Payables from exchange transactions	76,340,698	-	-	-
Unspent conditional grants and receipts	3,001,758	-	-	-
	80,326,970	-	-	-

At 30 June 2018

	Less than 1 year	Between 1 and 2 year	Between 2 and 5 years	Overs 5 years
Consumer deposits	188,550	-	-	-
Employee benefit obligation	431,000	-	-	-
Payables from exchange transactions	61,780,611	-	-	-
Uspent conditional grants	4,111,532	-	-	-
	66,511,693	-	-	-

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39. Risk management (continued)

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to note 5 and 7 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 5 and 7 for balances included in receivables that were re-negotiated for the period under review.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Price risk

The municipality is not exposed to price risk.

40. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	5,274,681	5,274,681
Other receivables from non-exchange transactions	13,794,605	13,794,605
Cash and cash equivalents	1,859,695	1,859,695
	20,928,981	20,928,981

Financial liabilities

	At amortised cost	Total
Other financial liabilities	191,514	191,514
Trade and other payables from exchange transactions	76,340,698	76,340,698
Taxes and transfers payable (non-exchange)	3,001,758	3,001,758

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Financial instruments disclosure (continued)

79,533,970 79,533,970

2018

Financial assets

	At amortised cost	Total
Receivables from exchange transactions	4,403,468	4,403,468
Receivables from non-exchange transactions	10,531,956	10,531,956
Cash and cash equivalents	5,174,429	5,174,429
	20,109,853	20,109,853

Financial liabilities

	At amortised cost	Total
Other financial liabilities	188,550	188,550
Payables from exchange transactions	61,780,611	61,780,611
Unspent conditional grants and receipts	4,111,532	4,111,532
	66,080,693	66,080,693

41. Unauthorised expenditure

Opening balance	319,365,944	255,653,025
Add: Unauthorised expenditure - current year	29,824,088	63,712,919
	349,190,032	319,365,944

Details of unauthorised expenditure - current year

	Disciplinary steps taken/criminal proceedings	
Overspending of vote budgets	Awaiting Council decision	29,824,088

Details of unauthorised expenditure - prior year

	Disciplinary steps taken/criminal proceedings	
Overspending of vote budgets	Awaiting Council decision	63,712,919

42. Fruitless and wasteful expenditure

Opening balance	17,596,135	10,831,158
Add: Fruitless and Wasteful Expenditure - current year	7,543,815	6,693,906
Add: Fruitless and Wasteful Expenditure - prior year	-	71,071
	25,139,950	17,596,135

Details of fruitless and wasteful expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Interest on overdue accounts	Awaiting Council decision	7,543,815

Details of fruitless and wasteful expenditure – prior year

	Disciplinary steps taken/criminal proceedings	
Interest on overdue accounts	Awaiting Council decision	6,447,928
Fines and penalties	Awaiting Council decision	317,049
		6,764,977

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43. Irregular expenditure

Opening balance	55,867,507	53,985,507
Add: Irregular Expenditure - current year	5,614,889	1,882,000
	61,482,396	55,867,507

Analysis of expenditure awaiting condonation per age classification

Current year	5,614,889	1,882,000
Prior years	55,867,507	53,985,507
	61,482,396	55,867,507

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Various contravention of procurement prescripts	Awaiting Council decision	5,614,889
		-
		5,614,889

Details of irregular expenditure - prior year

	Condoned by (condoning authority)	
Various contravention of procurement prescripts	Awaiting Council decision	1,882,000
		-
		1,882,000

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	2,028,292	1,521,435
Current year subscription / fee	512,205	506,857
Amount paid - current year	(2,000)	-
	2,538,497	2,028,292

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Figures in Rand

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Distribution losses

Electricity distribution losses

kWh purchased	13,467,539	12,803,513
Less: kWh sold	(9,282,386)	(7,346,825)
kWh Losses	4,185,153	5,456,688

% losses	31%	43%
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Average cost per unit	1.30	1,19
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Loss on Rand value	5,459,216	5,456,688
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Water distribution losses (Kilo litres)

Kilo litres purchased	1,475,916	518,918
Less: Kilo litres sold	(1,032,198)	(515,933)
Water distribution losses	443,718	2,985

% losses	30%	1%
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Average cost per kilo litre	0.93	2,49
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Loss in Rand value	413,101	7,431
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Audit fees

Opening balance	3,514,467	3,102,690
Current year subscription / fee	1,955,532	4,136,769
Amount paid - current year	-	(622,302)
Amount paid - previous years	(935,166)	(3,102,690)
Audit fees	4,534,833	3,514,467

PAYE, UIF and SDL

Opening balance	2,766,910	2,361,569
Current year subscription / fee	4,258,874	3,437,791
Amount paid - current year	-	(670,881)
Amount paid - previous years	(4,685,891)	(2,361,569)
PAYE, UIF and SDL	2,339,893	2,766,910

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand

44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Opening balance	2,203,071	1,548,499
Current year subscription / fee	6,683,802	5,515,219
Amount paid - current year	(6,778,344)	(3,312,148)
Amount paid - previous years	-	(1,548,499)
	2,108,529	2,203,071

VAT

VAT receivable	1,804,641	3,426,777
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2019:

June 30, 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor JZ Lolwana	8,346	118,319	126,665
Councillor PE Jantjies	5,031	13,920	18,951
Councillor JH Vorster	2,589	54,119	56,708
Councillor CC Janjies	720	944	1,664
Councillor W Schultz	9,574	6,276	15,850
Councillor KJ Arens	4,452	37,756	42,208
	30,712	231,334	262,046

June 30, 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor PE Jantjies	3,145	1,178	4,323
Councillor JZ Lolwana	7,783	100,478	108,261
Councillor JH Vorster	1,762	40,585	42,347
Councillor CC Jantjies	3,392	22,849	26,241
	16,082	165,090	181,172

45. Going concern

We draw attention to the fact that at 30 June 2019, the municipality incurred a deficit of R 22,137,117 (2018: deficit R 18,400,822) for the financial year.

We further draw attention to the fact that at 30 June 2019 a material uncertainty exists regarding the ability of the municipality to continue as a going concern. These factors are listed below:

- 1) The provisions for rehabilitation of landfill sites and employee benefit provisions are not cash backed.
- 2) The municipality experienced cash flow problems during the year, which resulted in major creditors not being paid timeously.
- 3) The consumer debtors days outstanding decreased to 596 days from (2018: 791 days).

Ubuntu Local Municipality

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Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand

45. Going concern (continued)

4) Electricity distribution losses (technical and non-technical) have decreased, however they are still above the norm to 31% (2018: 43%), further more water distribution losses have increased to 30% from (2018: 1%).

5) The municipality's current liabilities exceeds its current assets by R 58,796,949 (2018: R 46,700,419) which indicates a current ratio which is below the required norm of 1.5 - 2.

6) The municipality incurred a net deficit for the year under review of the major contributors to this change is increases in bulk purchase, general expenses and finance costs.

Even though the above uncertainties exist regarding the municipality's ability to continue as a going concern, the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the Accounting Officer continues to procure funding for the ongoing operations of the municipality.

Furthermore the municipality has embarked on implementing strategies which will strengthen its ability to continue as a going concern. The most significant of these is that the municipality is currently implementing a system to enhance revenue collection and cash flow by improving on the debt recoverability.

The municipality still has the ability to levy rates and taxes and will continue to receive funding from government as evident from the Equitable Share allocation in terms of the Division of Revenue Act.

46. Events after the reporting date

There was no significant events after the reporting date:

47. Other non-compliance (MFMA 125(2)(e))

Money owing by the municipality was not always paid within 30 days of receiving an invoice, as required by section 65(2)(e) of the MFMA.

Although the accounting officer has taken reasonable steps to ensure that the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds as required by Section 65(2)(a) of the MFMA, there are still deficiencies.

A credit control and debt collection policy was not fully implemented, as required by section 96(b) of the MSA.

The municipality did not update their website with all relevant documentation as required by Section 75(2) of the MFMA.

48. Budget differences

Material differences between budget and actual amounts

All variances greater than 10% will be explained on the final Annual Financial Statements for the year ended 30 June 2019.

x1: Revenue enhancement project and debtors cleanup, increased water revenue.

x2: Rental of facilities - Decreased hall utilisation.

x3: Interest received (trading) - economic climate has impacted on debtors payments percentages and therefore interest levied higher than expected.

x4: Licence and permits income is difficult to predict as it is based on the frequency of unpredictable events.

x5: Other income is difficult to predict as it is based on the frequency of unpredictable events.

x6: Variance below 10%, therefore insignificant.

Ubuntu Local Municipality

(Registration number NC071)

Annual Financial Statements for the year ended June 30, 2019

Notes to the Annual Financial Statements

Figures in Rand

48. Budget differences (continued)

x7: Variance below 10%, therefore insignificant..

x8: In line with DoRA Allocation as revised by National Treasury, unexpected assistance with audit fees from National Treasury.

x9: Donation income is difficult to predict as it is based on the frequency of unpredictable events.

x10: Traffic fine income is difficult to predict as it is based on the frequency of unpredictable events

x11: Stricter implementation of salary cost management.

x12: General savings in line with gazetted Council allowances..

x13: Due to the adoption of the amended FAR with significant changes to the value, useful lives and condition of all assets.

x14: Economic climate has impacted on debtors payments percentages and therefore resulting in long outstanding debtors.

x15: Actuarial and landfill site interest and creditors not provided for in the budgeted figure.

x16: General increase in the level of unexpected repairs.

x17: General increase in electricity and water tariffs above the expected increase.

x18: Due to increase in use of consultants for specialist services.

x19: Cost cutting measures applied.

x20: Gains and losses on disposal of asset are difficult to predict as there is no certainty on which assets will be sold.

x21: Actuarial gains and losses not budgeted for.

**APPENDIX A - UNAUDITED
UBUNTU LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2019**

EXTERNAL LOANS	Rate	Loan Number	Redeemable	Balance at 30 JUNE 2018	Correction of Error	Balance at 30 JUNE 2018 Restated	Received during the period	Redeemed written off during the period	Balance at 30 JUNE 2019
ANNUITY LOANS									
Development Bank of South Africa	8.00%	12692/101	2018/06/30	-	-	-	-		-
Total Annuity Loans				-	-	-	-	-	-
FINANCE LEASES									
Nashua	14.64%	N/a	2021/11/30	1 618 515	-	1 618 515	-	(1 081 511)	537 004
Nashua	14.64%	N/a	2022/06/30	542 360	-	542 360	-	(542 360)	0
Total Finance Leases				2 160 875	-	2 160 875	-	(1 623 871)	537 004
TOTAL EXTERNAL LOANS				2 160 875	-	2 160 875	-	(1 623 871)	537 004

APPENDIX B - UNAUDITED
UBUNTU LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2019

PROPERTY, PLANT AND EQUIPMENT

30 JUNE 2019

Reconciliation of Carrying Value

	Cost				Accumulated		Accumulated Depreciation and Impairment Losses				Carrying Value
	Opening Balance R	Additions R	Disposals/ Transfers R	Closing Balance R	Impairment	Opening Balance R	Depreciation Charge R	Impairment R	Disposals R	Closing Balance R	R
Buildings	69 902 970	-	-112 318	69 790 653	-	41 790 264	1 160 093	-	-119 040	42 831 316	26 959 336
Land	13 458 320	-	-	13 458 320	-	-	-	-	-	-	13 458 320
Buildings	56 444 650	-	-112 318	56 332 333	-	41 790 264	1 160 093	-	-119 040	42 831 316	13 501 016
Infrastructure	852 652 329	8 043 374	-55 676	860 640 028	112 305	413 654 988	18 431 301	9 129	-14 582	432 193 142	428 446 885
Electrical Infrastructure	57 558 195	-	-	57 558 195	-	39 260 942	1 143 155	-	-	40 404 097	17 154 098
Roads Infrastructure	300 391 941	-	-	300 391 941	-	211 281 102	10 849 307	-	-	222 130 408	78 261 533
Sanitation Infrastructure	372 672 058	-	-	372 672 058	-	99 997 189	3 932 781	-	-	103 929 971	268 742 088
Solid Waste Infrastructure	2 623 122	-	-	2 623 122	-	2 539 598	83 524	-	-	2 623 122	-0
Storm water Infrastructure	19 499 039	-	-	19 499 039	-	14 209 519	486 897	-	-	14 696 416	4 802 623
Water Supply Infrastructure	99 907 973	8 043 374	-55 676	107 895 672	112 305	46 366 639	1 935 637	9 129	-14 582	48 409 128	59 486 544
Community Assets	247 402 411	-	-	247 402 411	2 917 649	104 899 659	4 511 105	-	-	112 328 413	135 073 998
Community Facilities	168 363 290	-	-	168 363 290	808 948	63 750 697	3 356 738	-	-	67 916 384	100 446 906
Recreational Facilities	79 039 121	-	-	79 039 121	2 108 701	41 148 962	1 154 367	-	-	44 412 029	34 627 092
Lease Assets	2 043 693	-	-936 169	1 107 524	-	745 212	307 019	-	-402 786	649 445	458 079
Office Equipment	2 043 693	-	-936 169	1 107 524	-	745 212	307 019	-	-402 786	649 445	458 079
Other Assets	8 447 895	362 853	-854 557	7 956 191	274 087	5 774 440	497 268	96 580	-733 567	5 908 807	2 047 384
Furniture and fittings	898 968	89 847	-27 618	961 197	821	690 852	59 877	428	-23 657	728 321	232 876
Computer equipment	1 046 121	212 095	-81 819	1 176 397	390	733 223	95 742	-	-75 632	753 722	422 675
Mechanical equipment	287 400	58 595	-5 181	340 814	584	236 159	23 163	-	-4 767	255 139	85 675
Office machines	632 384	2 316	-4 253	630 447	53	392 441	73 752	1 442	-4 219	463 468	166 979
Electrical equipment	395 199	-	-20 935	374 263	133	339 522	18 517	81	-19 347	338 906	35 357
Vehicles	5 187 823	-	-714 751	4 473 072	272 106	3 382 243	226 217	94 629	-605 944	3 369 250	1 103 822
	1 180 449 298	8 406 227	-1 958 719	1 186 896 806	3 304 041	566 864 564	24 906 786	105 709	-1 269 976	593 911 123	592 985 683

APPENDIX B - UNAUDITED
UBUNTU LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2018

PROPERTY, PLANT AND EQUIPMENT

30 JUNE 2018

	Cost					Accumulated Depreciation and Impairment Losses					Carrying Value
	Opening Balance R	Additions R	Disposals/ Transfers R	Closing Balance R	Impairment	Opening Balance R	Depreciation Charge R	Impairment R	Disposals/ Transfers R	Closing Balance R	
Buildings	69 928 843	-	-25 872	69 902 970	-	41 045 162	1 144 532	-380 638	-18 793	41 790 264	28 112 707
Land	13 458 320	-	-	13 458 320	-	-	-	-	-	-	13 458 320
Buildings	56 470 523	-	-25 872	56 444 650	-	41 045 162	1 144 532	-380 638	-18 793	41 790 264	14 654 387
Infrastructure	841 914 966	11 201 876	-464 513	852 652 329	112 305	395 953 504	18 042 614	-	-341 129	413 767 294	438 885 036
Electrical Infrastructure	57 558 195	-	-	57 558 195	-	38 117 755	1 143 187	-	-	39 260 942	18 297 253
Roads Infrastructure	292 033 520	8 482 367	-123 946	300 391 941	-	200 742 919	10 645 474	-	-107 291.38	211 281 102	89 110 840
Sanitation Infrastructure	372 753 886	-	-81 828	372 672 058	-	96 130 975	3 933 199	-	-66 984.68	99 997 189	272 674 869
Solid Waste Infrastructure	2 623 122	-	-	2 623 122	-	2 531 245	8 352	-	-	2 539 598	83 524
Storm water Infrastructure	19 499 039	-	-	19 499 039	-	13 830 625	378 894	-	-	14 209 519	5 289 520
Water Supply Infrastructure	97 447 203	2 719 509	-258 739	99 907 973	112 305	44 599 984	1 933 508	-	-166 853.38	46 478 944	53 429 030
Community Assets	247 746 097	-	-343 686	247 402 411	2 917 649	100 691 620	4 522 488	-	-314 448	107 817 308	139 585 103
Community Facilities	168 706 976	-	-343 686	168 363 290	808 948	60 697 019	3 368 127	-	-314 448	64 559 645	103 803 645
Recreational Facilities	79 039 121	-	-	79 039 121	2 108 701	39 994 601	1 154 361	-	-	43 257 663	35 781 458
Lease Assets	2 043 693	-	-	2 043 693	-	384 452	360 760	-	-	745 212	1 298 481
Office Equipment	2 043 693	-	-	2 043 693	-	384 452	360 760	-	-	745 212	1 298 481
Other Assets	8 763 521	21 544	-337 170	8 447 895	206 300	5 376 065	695 432	68 022	-297 291	6 048 527	2 399 368
Furniture and fittings	909 140	-	-10 173	898 968	621	634 664	63 510	243	-7 365	691 673	207 295
Computer equipment	1 083 971	3 477	-41 327	1 046 121	422	654 120	117 772	65	-38 766	733 613	312 509
Mechanical equipment	288 448	-	-1 048	287 400	59	216 583	20 388	524	-812	236 743	50 657
Office machines	623 245	17 194	-8 055	632 384	-	327 913	72 006	53	-7 478	392 494	239 890
Electrical equipment	670 893	-	-275 694	395 199	95	525 434	56 864	133	-242 871	339 655	55 543
Vehicles	5 187 823	873	-873	5 187 823	205 102	3 017 350	364 893	67 004	-	3 654 348	1 533 475
	1 170 397 119	11 223 421	-1 171 241	1 180 449 298	3 236 253	543 450 803	24 765 826	-312 616	-971 661	570 168 605	610 280 694

**APPENDIX D - UNAUDITED
UBUNTU LOCAL MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019
MUNICIPAL VOTES CLASSIFICATION**

2018 Actual Income R	2018 Actual Expenditure R	2018 Surplus/ (Deficit) R		2019 Actual Income R	2019 Actual Expenditure R	2019 Surplus/ (Deficit) R
-	-1 170.80	-1 171	ABBATOIR	-	-	-
712 333	-5 596 041	-4 883 708	ADMINISTRATION	56 285.10	-5 760 332	-5 704 047
-	-527 114	-527 114	AERODROME	-	-512 205	-512 205
197 811	-389 846	-192 035	BUILDINGS & OFFICES	101 818.61	-110 135	-8 316
18 056	-	18 056	CEMETRY	26 214.22	-	26 214
44 424	-	44 424	COMMONAGE	46 160.54	-	46 161
193 067	-7 274 012	-7 080 945	COUNCIL GENERAL EXPENSES	351 437.50	-4 932 086	-4 580 648
-	-223	-223	DAM WATER	-	-1 715	-1 715
12 708 922	-38 874 975	-26 166 053	ELECTRICITY	16 661 144.18	-35 918 250	-19 257 106
41 438 752	-48 998 162	-7 559 410	FINANCE	44 634 045.35	-34 675 333	9 958 713
-	-9 198	-9 198	FIRE BRIGADE	-	-	-
602	-8 752	-8 150	HEALTH SERVICES	582	-	582
861 058	-1 348 356	-487 298	LIBRARY'S	660 594	-1 637 560	-976 965
58 546	-1 322 619	-1 264 073	MANAGEMENT SEVICES	26	-1 135 755	-1 135 729
2 160	-	2 160	NATURE RESERVE	-	-	-
8 400	-101 531	-93 131	PARKS & RECREATION	-157 758	-	-157 758
5 809 039	-765 868	5 043 171	PROPERTY TAX	9 260 355	-	9 260 355
10 684 721	-8 994 997	1 689 724	PUBLIC WORKS	6 266 706	-17 307 383	-11 040 677
3 991 585	-6 144 552	-2 152 966	REFUSE	1 360 285	-5 980 367	-4 620 082
500	-188 349	-187 849	ROADS AND STORMWATER DRAINAGE	324	-242 253	-241 929
3 260 219	-6 538 755	-3 278 537	SEWERAGE AND SANITATION	1 825 660	-5 383 867	-3 558 207
32 627 523	-5 832 930	26 794 593	TRAFFIC SERVICES	11 957 395	-11 421 837	535 558
5 888 976	-3 990 066	1 898 910	WATER	13 360 986	-3 530 300	9 830 686
-	-	-				
118 506 695	(136 907 517)	(18 400 822)	Sub Total	106 412 260	(128 549 377)	(22 137 117)
-	-	-		-	-	-
118 506 695	(136 907 517)	(18 400 822)	Total	106 412 260	(128 549 377)	(22 137 117)

APPENDIX F - UNAUDITED
UBUNTU LOCAL MUNICIPALITY
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grant Description	Balance 1 JULY 2018	Grants Received	Forfeited to National Revenue Fund	Tranferred to Funds to be Surrendered	Operating Expenditure during the year Transferred to Revenue	Capital Expenditure during the year Transferred to Revenue	Balance 30 JUNE 2019	Unspent 30 JUNE 2019 (Creditor)	Unpaid 30 JUNE 2019 (Debtor)
<u>National Government Grants</u>									
Equitable Share	-	31 165 000	-	-	31 165 000	-	-	-	-
Local Government Financial Management Grant	-	1 970 000	-	-	1 970 000	-	-	-	-
Municipal Infrastructure Grant	262 409	-	-	-	-	262 409	-	-	-
Municipal Systems Improvement Grant	-	-	-	-	-	-	-	-	-
Water Services Infrastructure Grants (WSIG)	847 363	4 000 000	-	-	-	4 847 363	-	-	-
National Electrification Programme (INEP)	1 248	4 000 000	-	-	-	4 000 000	1 248	1 248	-
Expanded Public Works Program (EPWP)	-	1 000 000	-	-	1 000 000	-	-	-	-
Total National Government Grants	1 111 020	42 135 000	-	-	34 135 000	9 109 772	1 248	1 248	-
<u>Provincial Government Grants</u>									
Project Library	1 929 450	660 000	-	-	660 000	-	1 929 450	1 929 450	-
Northern Cape Provincial Treasury	-	-	-	-	-	-	-	-	-
Department of Human Settlements (Services 36 Erven Loxton)	305 093	-	-	-	-	-	305 093	305 093	-
Project Housing	115 555	-	-	-	-	-	115 555	115 555	-
COGSTHA Incentive Grant	460 835	-	-	-	-	-	460 835	460 835	-
Total Provincial Government Grants	2 810 933	660 000	-	-	660 000	-	2 810 933	2 810 933	-
<u>District Municipality Grants</u>									
Upgrading of Sportsgrounds	-	-	-	-	-	-	-	-	-
Total District Municipality Grants	-	-	-	-	-	-	-	-	-
<u>Other Grant Providers</u>									
Project Cemetery	88 739	-	-	-	-	-	88 739	88 739	-
Project River Richmond	1 828	-	-	-	-	-	1 828	1 828	-
Solid Waste Site Victoria West	99 012	-	-	-	-	-	99 012	99 012	-
Total Other Grant Providers	189 579	-	-	-	-	-	189 579	189 579	-
Total	4 111 531	42 795 000	-	-	34 795 000	9 109 772	3 001 760	3 001 759	-